



ALLIANCE OF WESTERN MILK PRODUCERS

1225 H Street, Suite 102 • Sacramento, CA 95814 • Phone: 916-447-9941

Representing California's dairy cooperatives and their producer-owners since 1991.

Weekly Update

FEBRUARY 14, 2003

California congressman protects Arizona PD

An effort to limit how much milk a producer-handler (PD) can process and still be exempt from pooling in Arizona was thwarted by a California congressman. Unfortunately, his efforts may also cost California dairy farmers tens of million of dollars.

When is a PD no longer a PD

The federal order system treats PDs differently than the California system does. Any producer in a federal order can become a

fluid PD if 95 percent or more of milk he/she bottles is his/her milk. This provision was put in place when dairy farms were much, much smaller than today and PDs were operating locally.

In California, when pooling was put in place, the quantity of milk California producer-handlers had at that time was a limit on the amount of their milk that was (and is) exempt from pooling. They cannot increase the amount exempted by increasing

milk production, but must purchase PD quota in order to increase the amount of their milk that is exempt. However, for a California PD, that amount of milk is exempt from pooling regardless of how much outside milk it packages. The PD does have a pool obligation on all outside milk processed.

An Arizona PD has grown to the point where it has a significant share of the Arizona federal or-

(Continued on page 2)

Price from bad to worse

The block price at the CME plunged 6.75 cents Friday which puts the cash market price 5.39 cents below support. The butter price also dropped, but *only* a half cent. It remains one cent above support. The California weighted average powder price also fell this week, dropping 0.72 cents to 80.16 cents, barely above support on a weighted average basis.

February a VERY bad month

Assuming commodity prices stay where they are for the rest of the month, the 4a price would be \$9.36, down 24 cents from January. The 4b price would be \$9.44, 14 cents lower than January.

Those numbers would put the overbase price around \$9.45, nearly 30 cents lower than January and \$1.38 cents less than February 2002. That would make the February 2003 overbase price the lowest overbase price since the 1970s.

Combine a very low price with low milk production and February may be the worse of some bad months.<<

This Week's Dairy Prices

(Change from prior week)

CME Cash Cheese Trading

Block: Close: \$1.0775 (-8.00¢)

Weekly Ave: \$1.1380 (-2.05¢)

500 lb. barrel: Close: \$1.0450 (-0.50¢)

Weekly Ave: \$1.0480 (-0.35¢)

CME Cash AA Butter Trading

Close: \$1.0650 (+1.25¢)

Wkly Ave: \$1.0650 (+0.92¢)

Nonfat Dry Milk Powder

Central and East

Mostly: \$0.8150 (-1.50¢) to \$0.8300 (-1.00¢)

Western

Mostly: \$0.8000 (NC) to \$0.8150 (NC)

California Weighted Average Price

Week ending Feb. 7 - \$0.8016 (-0.72¢)

NASS Wtd. Ave. Dairy Product Prices

Week ending 02/07/03

	<u>U.S.</u>	<u>MN/WI</u>	<u>West</u>
Cheddar Blocks	\$1.1534	\$1.1696	\$1.1481
Chg.	+0.47¢	-1.11¢	+1.02¢
Cheddar Barrels	\$1.0920	\$1.0968	\$1.0887
Chg.	-1.56¢	-1.80¢	-1.57¢
AA Butter	\$1.0512	+0.02¢	
Nonfat Dry Milk	\$0.8113	-0.07¢	
Dry Whey	\$0.1646	+0.18¢	

Support Purchases:

Nonfat Powder:	15,235,879 lbs.
Process Cheese	633,600 lbs.
Butter (cancellations)	(1,437,889) lbs.

Dairy's 2003 agenda *(continued)*

der Class 1 market. This obviously has an impact on producers pooled in that federal order and on processors trying to compete with the PD. A PD has a tremendous price advantage because it is not required to pay into the pool the difference between the federal order blend price and the Class 1 price as a regular fluid processor has to do.

For example, in December, the Class I price was \$12.87 and the blend price was \$11.07. That meant a PD had a \$1.80 per hundred-weight raw material price advantage over other fluid processors. That's equal to 15.5 cents a gallon less the PD needs to be paid for its packaged milk compared to non-PD fluid processors. It is this advantage that allows PDs to expand their dairy operations and further increase sales which further erodes the pool.

Therefore, Senator Kyle of Arizona had introduced an amendment to the 2003 Agriculture Appropriations Bill that would limit how big a PD could be. That amendment also included a provision California dairy farmers and milk processors are very interested in.

California's interest

A large fluid bottling plant is being constructed in Yuma, Arizona, by the same Arizona producer-handler, for the purpose of selling packaged milk into California. Based on the reported quantity of milk the plant will process daily, the Alliance estimates that if that plant had been in operation in 2002, the overbase price would have been reduced by seven (7) cents a hundredweight.

Because this plant would be selling almost all of its milk into California, it would be regulated by neither

the Arizona federal order or the California state order. Therefore, it would be able to use milk that its owner did not produce on his dairies. That milk could come from California or Arizona.

The December Class 1 price in Southern California was \$12.60. The overbase price that month was \$9.78. With 24.3 cents a gallon to play with, the Yuma plant could afford to haul the milk to Los Angeles, undercut the California processor price and still pay California producers shipping to his plant more than the overbase price.

The Kyle amendment originally had a provision in it that would have addressed this situation by regulating the Yuma plant in the Arizona federal order. It was reduced to a study before the Ag Appropriations bill passed the Senate. However, an outstanding effort to put the original provision back in the bill in the Senate/House conference was made by freshman Congressman Devin Nunes.

Congressman Nunes pushed hard, but a senior California congressman, at the urging of Milk Producers Council, raised strong objections. Congressional Republican leadership, wanting to get this fiscal year's appropriations bills passed with as little controversy as possible, dropped the amendment from the bill.

NMPF, the Alliance, Western United and the Dairy Institute all worked hard to get this amendment passed.

Their efforts will not end here. As with the California standards issue, it took some time, but ultimately, the job will get done.<<<

New Class III 4/1

The USDA announced this past week that the Final Class III and Class IV federal market order pricing formulas will be effective April 1. That is good news for California producers waiting for CDFA to make a decision whether or not to adjust California 4a and 4b prices as proposed by the Alliance and others at the January 29-30 hearing.

Comparing the current Class III prices for 2002 to California's current 4b prices shows that the 4b price averaged 44 cents less. The final decisions adjustments to the Class III formula raises that difference to 51 cents a hundredweight less.

The table below shows how much each of the proposals discussed at the hearing would increase the Class 4b price. Clearly, CDFA can make a substantial adjustment to the Class 4b price and 4b processors will still be competitive.<<<

Alliance	+\$0.29
Western United	+\$0.34
CA Dairy Campaign	+\$0.66
CA Dairy Women	+\$0.05
Dairy Institute	-\$0.01

January 2003 Milk Production

(million lbs., % change from 2002, 2001)

	Jan		2002	
California	2,933	+4.2%	34,884	+5.0%
Wisconsin	1,829	-0.4%	22,074	-0.6%
New York	992	+1.3%	12,217	+3.7%
Pennsylvania	894	-2.0%	10,775	-0.7%
Minnesota	703	-3.7%	8,458	-4.0%
Idaho	679	+2.9%	8,155	+5.1%
New Mexico	528	+7.8%	6,316	+13.6%
Michigan	504	+3.5%	5,945	+1.3%
Washington	467	+2.4%	5,620	+1.9%
Texas	456	+6.3%	5,300	+3.8%
Total U.S.	14,139	+1.7%	169,758	+2.6%